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FISCAL IMPACT REPORT

SPONSOR: Lujan DATE TYPED: 1/30/03 HB 167

SHORT TITLE: Reduce Income Tax Rates SB _____

ANALYST: Smith

REVENUE

Estimated Revenue				Recurring or Non-Rec	Fund Affected
FY04	FY05	FY06	FY07		
(17,110.0)	(56,909.0)	(151,058.0)	(299,293.0)	Recurring	Rate Cut
<u>(4,176.0)</u>	<u>(10,297.0)</u>	<u>(15,622.0)</u>	<u>(25,844.0)</u>	Recurring	Capital Gains Cut
(21,286.0)	(67,206.0)	(166,680.0)	(325,137.0)	Recurring	Total General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 167
Conflicts with SB 238

SOURCES OF INFORMATION

Responses Received From
TRD

SUMMARY

Synopsis of Bill

House Bill 167 would reduce New Mexico's highest personal income tax rates from their current maximum of 8.2 percent to the following rates:

- In tax year 2003: 7.7%;
- In tax year 2004: 7.0%;
- In tax year 2005: 6.0%; and
- In tax year 2006 and after: 5.0%.

Beginning in tax year 2003, taxpayers would be able to deduct *the greater of* \$1,000 or the following percentage of their net capital gain income:

- In tax year 2003: 10%;
- In tax year 2004: 20%;
- In tax year 2005: 30%; and
- In tax years 2006 and after: 50%.

Significant Issues

TRD has supplied the following rate tables.

Current and Proposed Personal Income Tax Rates

Current Rate (%)	Joint Taxable Income		Single Taxable Income		Separate Taxable Income		Head of Household Taxable Income	
	From	to	From	to	From	to	From	to
1.7	0	8,000	0	5,500	0	4,000	0	7,000
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000
7.1	40,001	64,000	26,001	42,000	20,001	32,000	33,001	53,000
7.9	64,001	100,000	42,001	65,000	32,001	50,000	53,001	83,000
8.2	101,000	& above	65,001	& above	50,001	& above	83,001	& above

Proposed Tax Year 2003 Rate (%)	Joint Taxable Income		Single Taxable Income		Separate Taxable Income		Head of Household Taxable Income	
	From	to	From	to	From	to	From	to
1.7	0	8,000	0	5,500	0	4,000	0	7,000
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000
7.1	40,001	64,000	26,001	42,000	20,001	32,000	33,001	53,000
7.7	64,001	& above	42,001	& above	32,001	& above	53,001	& above

Proposed Tax Year 2004 Rate (%)	Joint Taxable Income		Single Taxable Income		Separate Taxable Income		Head of Household Taxable Income	
	From	to	From	to	From	to	From	to
1.7	0	8,000	0	5,500	0	4,000	0	7,000
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000
6	24,001	40,000	16,001	26,000	12,001	20,000	20,001	33,000
7	40,001	& above	26,001	& above	20,001	& above	33,001	& above

Proposed Tax Year 2005 Rate (%)	Joint Taxable Income		Single Taxable Income		Separate Taxable Income		Head of Household Taxable Income	
	From	to	From	to	From	to	From	to
1.7	0	8,000	0	5,500	0	4,000	0	7,000
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000

4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000
6	24,001	& above	16,001	& above	12,001	& above	20,001	& above
<i>Proposed</i> Tax Year 2006 Rate (%)	Joint Taxable Income From to		Single Taxable Income From to		Separate Taxable Income From to		Head of Household Taxable Income From to	
1.7	0	8,000	0	5,500	0	4,000	0	7,000
3.2	8,001	16,000	5,501	11,000	4,001	8,000	7,001	14,000
4.7	16,001	24,000	11,001	16,000	8,001	12,000	14,001	20,000
5	24,001	& above	16,001	& above	12,001	& above	20,001	& above

FISCAL IMPLICATIONS

The impacts of the capital gains deduction are evaluated under the proposed tax rates. If the tax rate changes are not adopted, the impacts of the capital gains provisions compared to present law tax rates would be larger. Further, capital gains realization levels have been suppressed by recent stock market performance. While a “bounce” back to the levels of the late 1990’s is not anticipated, it should be noted that realizations are notoriously volatile and difficult to forecast.

OTHER SUBSTANTIVE ISSUES

TRD notes that state income tax payments are deductible for purposes of calculating federal income tax. Thus, because this proposal would reduce state income tax liabilities, it would also reduce these deductions. This reduces the net benefits of the tax reduction for the taxpayer. For example, if a taxpayer is in the 30% tax bracket, the net benefit to the taxpayer of the state tax reduction would be reduced by 30%.

TRD has provided the following table that shows who reaps the benefit of the income tax cut by income class and filing status.

Effects of Proposed Tax Reduction by Taxable Income and Filing Status												
Filing Status	Tax Year 2003			Tax Year 2004			Tax Year 2005			Tax Year 2006		
	Present Law Liability *	Proposed Law Liability*	Decrease in Tax Liability *	Present Law Liability *	Proposed Law Liability*	Decrease in Tax Liability *	Present Law Liability *	Proposed Law Liability*	Decrease in Tax Liability *	Present Law Liability	Proposed Law Liability*	Decrease in Tax Liability *
										*		
Married Filing Joint												
Taxable Income (\$)												
0 to 8,000	2.0	2.0	(0.0)	2.1	2.1	0.0	2.2	2.2	(0.0)	2.3	2.3	(0.0)
8,001 to 16,000	9.4	9.4	(0.0)	10.0	10.0	0.0	10.7	10.7	(0.0)	11.5	11.5	(0.0)
16,001 to 24,000	18.2	18.2	(0.0)	19.6	19.6	0.0	21.0	21.0	(0.0)	22.6	22.6	(0.0)
24,001 to 40,000	76.2	76.2	(0.0)	81.4	81.4	(0.0)	86.9	86.9	(0.0)	92.9	82.8	(10.2)
40,001 to 64,000	159.2	159.1	(0.0)	169.3	167.9	(1.4)	179.7	167.4	(12.3)	191.2	153.8	(37.4)
64,001 to 100,000	165.9	164.5	(1.4)	175.7	167.7	(8.0)	185.7	159.5	(26.3)	196.7	143.9	(52.8)
100,001 and over	291.7	280.4	(11.3)	306.4	273.5	(32.9)	321.5	250.6	(70.9)	337.8	221.4	(116.4)
Total	722.5	709.8	(12.7)	764.4	722.1	(42.3)	807.8	696.6	(111.2)	855.1	638.4	(216.8)
Single												
Taxable Income (\$)												
0 to 5,500	5.6	5.6	(0.0)	5.9	5.9	0.0	6.3	6.3	0.0	6.7	6.7	-

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5,500 to 11,000	19.5	19.5	(0.0)	20.9	20.9	0.0	22.4	22.4	0.0	24.2	24.2	0.0
11,000 to 16,000	27.9	27.9	(0.0)	29.8	29.8	(0.0)	31.8	31.8	(0.0)	34.1	34.1	0.0
16,000 to 26,000	57.1	57.1	(0.0)	60.8	60.8	(0.0)	64.7	60.5	(4.2)	68.9	52.9	(16.0)
26,000 to 42,000	47.2	47.2	0.0	50.0	47.8	(2.2)	52.9	45.9	(7.1)	56.2	41.5	(14.6)
42,000 to 65,000	27.2	26.3	(0.9)	28.7	26.4	(2.2)	30.2	24.6	(5.6)	31.9	22.0	(9.9)
65,000 and over	48.2	46.0	(2.2)	50.5	44.4	(6.1)	52.9	40.4	(12.5)	55.5	35.5	(20.0)
Total	232.7	229.5	(3.2)	246.8	236.1	(10.7)	261.3	231.9	(29.4)	277.4	216.8	(60.7)
Separate												
Taxable Income (\$)												
0 to 4,000	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
4,000 to 8,000	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-	0.1	0.1	-
8,000 to 12,000	0.2	0.2	-	0.3	0.3	-	0.3	0.3	-	0.3	0.3	(0.0)
12,000 to 20,000	1.0	1.0	-	1.1	1.1	(0.0)	1.1	1.1	(0.0)	1.2	1.1	(0.1)
20,000 to 32,000	1.8	1.8	-	1.9	1.9	(0.0)	2.0	1.8	(0.1)	2.1	1.7	(0.4)
32,000 to 50,000	1.8	1.7	(0.0)	1.9	1.8	(0.1)	2.0	1.7	(0.3)	2.1	1.5	(0.6)
50,000 and over	6.3	6.0	(0.3)	6.6	5.8	(0.8)	6.9	5.3	(1.6)	7.2	4.6	(2.6)
Total	11.2	10.9	(0.3)	11.8	10.9	(0.9)	12.4	10.4	(2.1)	13.1	9.4	(3.7)
Head of Household												
Taxable Income (\$)												
0 to 7,000	1.7	1.7	(0.0)	1.8	1.8	0.0	1.9	1.9	(0.0)	2.0	2.0	(0.0)
7,000 to 14,000	4.7	4.7	(0.0)	5.0	5.0	0.0	5.3	5.3	(0.0)	5.7	5.7	(0.0)
14,000 to 20,000	6.0	6.0	(0.0)	6.5	6.5	0.0	7.0	7.0	(0.0)	7.5	7.5	(0.0)
20,000 to 33,000	11.5	11.5	(0.0)	12.3	12.3	(0.0)	13.1	13.1	0.0	14.0	12.6	(1.4)
33,000 to 53,000	12.3	12.3	(0.0)	13.1	13.0	(0.1)	13.9	12.9	(1.0)	14.8	11.9	(2.8)
53,000 to 83,000	7.2	7.1	(0.1)	7.6	7.2	(0.3)	8.0	6.9	(1.1)	8.5	6.2	(2.3)
83,000 and over	10.3	9.9	(0.4)	10.8	9.6	(1.2)	11.4	8.8	(2.6)	11.9	7.8	(4.2)
Total	53.6	53.1	(0.5)	57.0	55.4	(1.6)	60.6	55.8	(4.8)	64.4	53.6	(10.9)

* in \$ Millions

Additionally, TRD has provided analogous tables for the capital gains tax reduction.

Estimated Distributional Impacts of the Capital Gains Proposal For Selected Years:

Tax Year 2003

Adjusted Gross Income		Net Capital Gains	Increased Deductions	Decreased Tax Liability
		(millions)	(millions)	(thousands)
\$0 or Less	\$10,000	\$22.3	\$0.0	\$0.0
\$10,000	\$20,000	\$15.0	\$0.0	\$0.0
\$20,000	\$30,000	\$17.9	\$0.0	\$0.0
\$30,000	\$50,000	\$45.0	\$0.0	\$0.0
\$50,000	\$75,000	\$70.1	\$0.0	\$0.0
\$75,000	\$100,000	\$70.1	\$1.9	\$129
\$100,000	\$150,000	\$104.6	\$4.9	\$349
\$150,000	\$200,000	\$69.5	\$4.5	\$314
\$200,000	Over	\$541.5	\$48.0	\$3,384
	Total	\$956.1	\$59.3	\$4,176

Tax Year 2006

Adjusted Gross Income		Net Capital Gains	Increased Deductions	Decreased Tax Liability
		(millions)	(millions)	(thousands)
\$0 or Less	\$10,000	\$28.3	\$10.6	\$159
\$10,000	\$20,000	\$19.1	\$5.3	\$92.3
\$20,000	\$30,000	\$22.8	\$7.2	\$217
\$30,000	\$50,000	\$57.1	\$20.6	\$874
\$50,000	\$75,000	\$89.1	\$35.3	\$1,596
\$75,000	\$100,000	\$89.1	\$38.0	\$1,779
\$100,000	\$150,000	\$132.9	\$59.4	\$2,876
\$150,000	\$200,000	\$88.3	\$41.0	\$1,983
\$200,000	Over	\$688.0	\$336.2	\$16,267
	Total	\$1,214.7	\$553.6	\$25,844

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